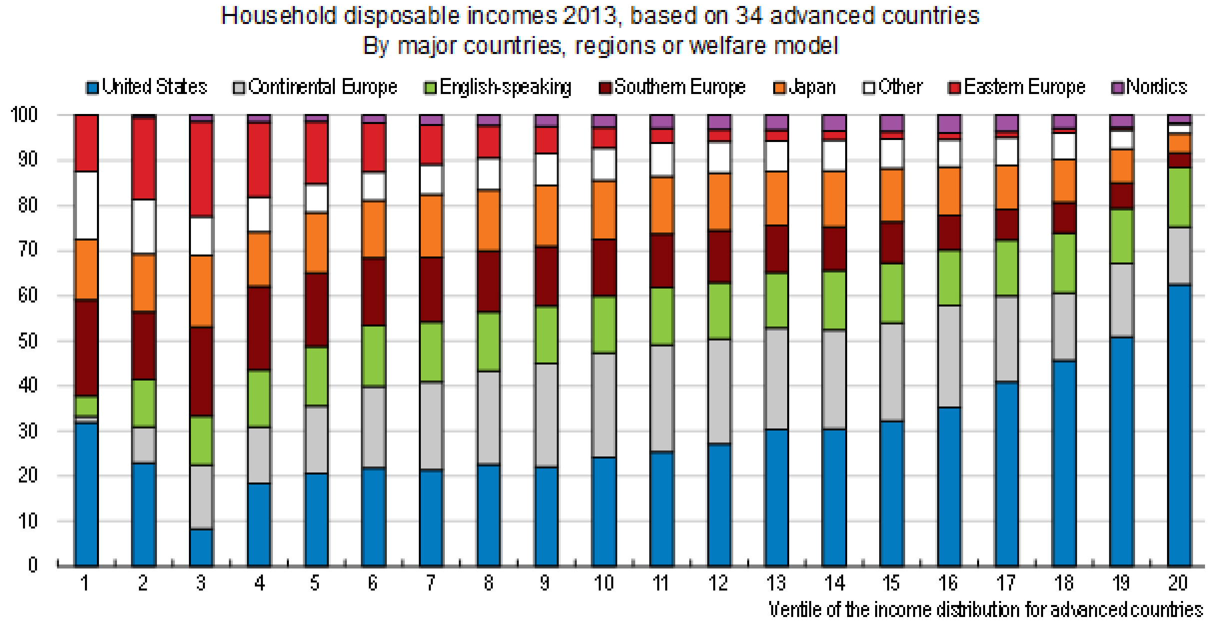
A new perspective on inequality: The income distribution across advanced countries

Category: Inequality,Uncategorized
written by oecdecoscope | April 4, 2018
By Mikkel Hermansen, Economist, OECD Economics Department

What is the relevant perspective for evaluating people's living standards in advanced countries? According to standard assessments of inequality it is fellow citizens within the country. In a recent paper (Hermansen, 2017), I argue that an interpersonal income distribution across advanced countries can provide a useful complement to comparisons of relative inequality across countries. For instance, the United States is well-known to be more unequal than Sweden, but how do the incomes of the bottom and top of the distributions across these and other countries compare directly in PPP terms?

Figure 1 illustrates how countries (grouped by regions or similar welfare models) are spread across the income distribution for advanced countries. Because this is a homogeneous set of countries, almost all subgroups are represented across the distribution from the bottom 5% to the top 5%. The United States stands out as it composes more than half of the top 5% of the aggregate distribution, but also makes up more than 30% of the bottom 5%. By contrast, the egalitarian Nordic countries are concentrated in the upper half, but nearly absent from the tails.

Figure 1. The composition of the income distribution for advanced countries



Note: Each ventile comprises 5% of the combined population in advanced countries. Continental Europe refer to Austria, Belgium, France, Germany, Luxembourg, the Netherlands and Switzerland; English-speaking countries refer to Australia, Canada, Ireland, New Zealand and the United Kingdom; Southern Europe refer to Greece, Italy, Portugal and Spain; Other refer to Chile, Israel and Korea; Eastern Europe refer to Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia; Nordics refer to Denmark, Finland, Iceland, Norway and Sweden.

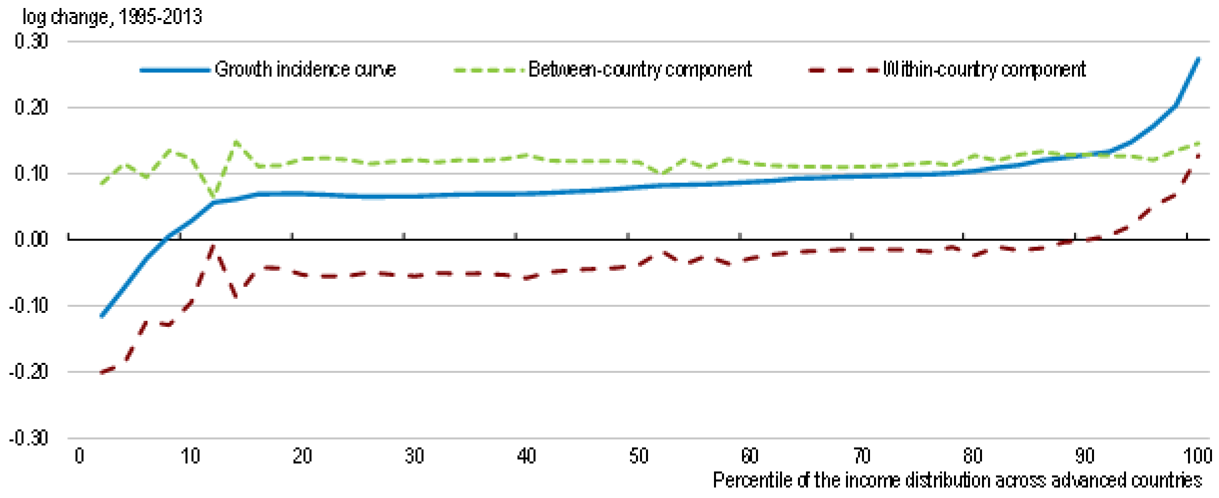
Source: Author's calculations based on the OECD Income Distribution Database.

Inequality across all individuals living in advanced countries reaches 37 based on the Gini index, which has a scale going from 0 (perfect equality) to 100 (all income accruing to one person). This is relatively high, corresponding to the inequality levels observed in Israel and Estonia, but lower than inequality within the United States.

Inequality across advanced countries has increased by almost 3 Gini points from the mid-1990s to 2013, roughly in two phases, first from the mid-1990s to the mid-2000s and then again in the aftermath of the crisis. This was mainly driven by the top and bottom 10% drifting apart, as can be seen from the growth incidence curve in Figure 2. This curve relates incomes across the aggregate distribution for advanced countries in 2013 to the same percentile in 1995, ignoring changes in country composition across the distribution (as illustrated in Figure 1).

Figure 2. Income inequality across advanced countries has increased, driven almost entirely by rising within-country inequality

Log change in household disposable incomes from 1995 to 2013, based on 17 advanced countries



Source: Author's calculations based on the OECD Income Distribution Database.

The growth incidence curve is a powerful and popular tool in inequality studies since it can provide granular information not available from measures such as the Gini. In the paper, I present a new approach to decompose the growth incidence curve into a within- and between-country component, allowing further granularity of within- and between-country inequality changes. For advanced countries, the between-country curve is almost flat from 1995 to 2013, meaning little change in inequality when replacing all households' income with average income of their country of residence. This implies that almost all of the rise in inequality across advanced countries is driven by the well-known rise in inequality within countries, reflected by the parallel shape of the within-country component and the growth incidence curve in Figure 2.

References

Hermansen, M. (2017), "The global income distribution for high-income countries", *OECD Economics Department Working Papers*, No. 1402, OECD Publishing, Paris, http://dx.doi.org/10.1787/65206dc1-en.

Tunisie: relancer le processus de convergence économique et le mettre au service de tous les tunisiens

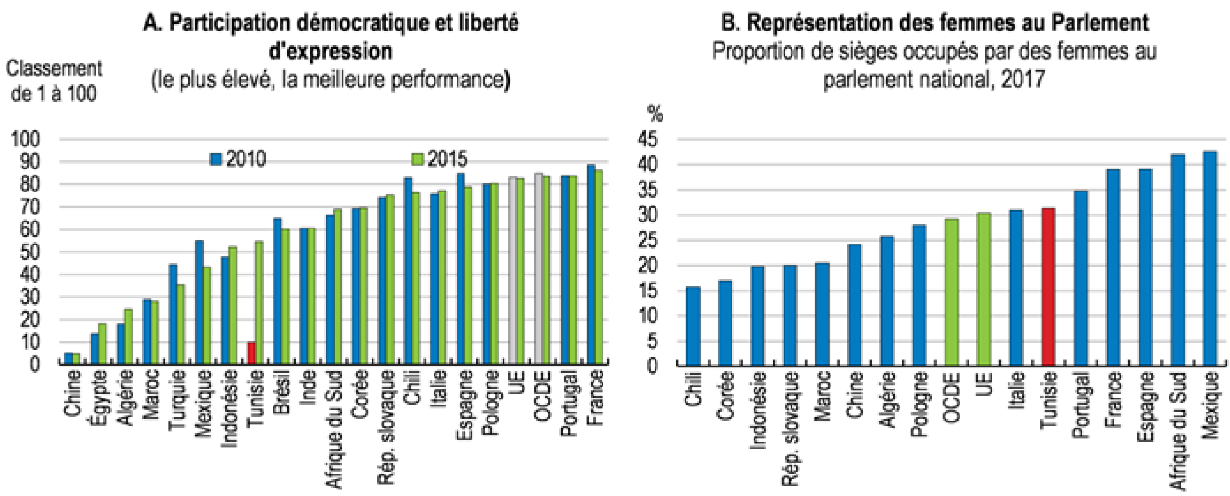
Category: Posts in French,Tunisia,Uncategorized
written by oecdecoscope | April 4, 2018

Par Isabelle Joumard et Christine de La Maisonneuve, Bureau Tunisie, Département des affaires économiques

La Tunisie s'est engagée dans un processus de démocratisation qu'il faut soutenir par des réformes économiques pour assurer une amélioration du niveau de vie de tous les tunisiens.

La capacité des citoyens à participer à la vie politique a fortement progressé et la représentation des femmes au parlement est plus élevée que dans la majorité des pays de l'OCDE et des pays émergents (graphique 1).

Figure 1. Transition politique : des progrès considérables pour la démocratie

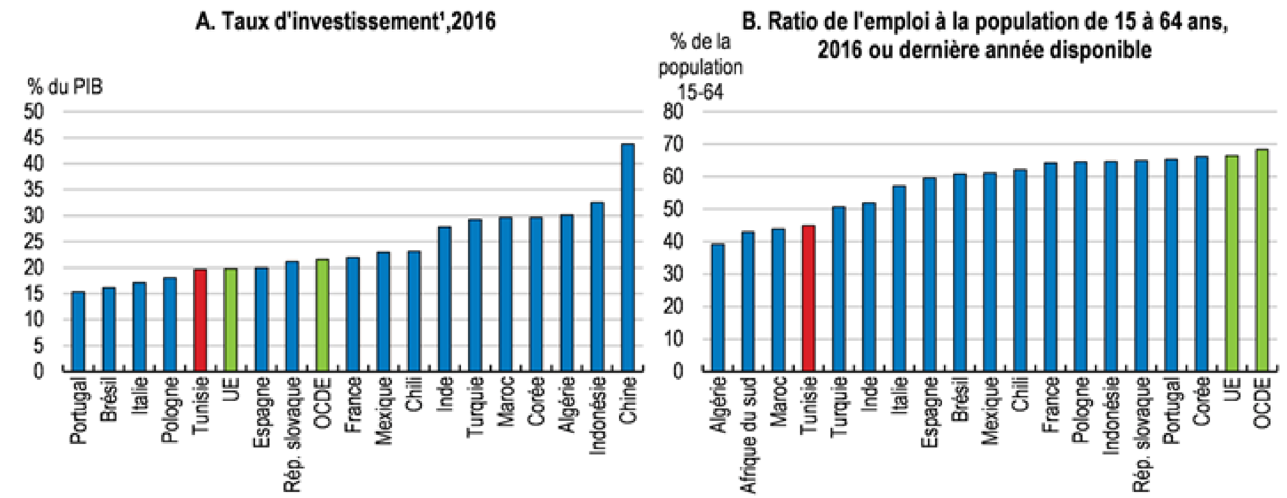


Source : Banque mondiale, Indicateurs mondiaux de la gouvernance ; et Banque mondiale, Indicateurs de développement mondial (WDI).

La croissance économique tarde néanmoins à redémarrer. Des facteurs spécifiques et temporaires ont pesé, notamment la faible croissance des marchés traditionnels d'exportation, des tensions sociales, la détérioration de la sécurité dans la région et la crise libyenne. La hausse du nombre de fonctionnaires et des salaires publics a soutenu temporairement la demande mais s'est traduite par une dérive des comptes publics, des équilibres externes et une montée de l'inflation. Pour relancer l'activité, la création d'emplois de qualité et la réduction des inégalités, il faut maintenant donner la priorité à la mise en œuvre des réformes structurelles.

La Tunisie jouît d'atouts indéniables, notamment des infrastructures de base bien développées par rapport aux pays de la région, une main d'œuvre relativement bien formée et une localisation géographique stratégique entre l'Europe et l'Afrique. La participation de la Tunisie dans les chaines de valeur mondiales et le dynamisme des entreprises orientées vers les marchés d'exportation en témoignent. Pourtant, ces atouts ne sont pas entièrement exploités. L'investissement reste faible et la création d'emplois est en panne (Figure 2).

Figure 2. Stimuler l'investissement et créer des emplois de qualité



1. Formation brute de capital fixe.
Source : INS ; ILOSTAT. ; Base de données des perspectives économiques de l'OCDE n° 102 ; FMI, base de données des Perspectives de l'économie mondiale ; et Eurostat.

Pour relancer l'investissement, la Tunisie doit lever les obstacles réglementaires, douaniers et logistiques qui affectent particulièrement les entreprises tournées vers le marché national. La mise en œuvre de la nouvelle loi sur l'investissement est un pas dans la bonne direction mais devra être complétée par une accélération des réformes structurelles, notamment une simplification drastique du régime des autorisations, permis et licences ainsi que des procédures administratives et douanières lors du passage des biens à la frontière.

Le chômage est important, particulièrement pour les jeunes diplômés de l'enseignement supérieur ; le taux d'emploi des femmes est faible et l'emploi informel est répandu. Une croissance plus forte ne sera pas suffisante pour créer des emplois de qualité pour tous les jeunes et autres tunisiens actuellement au chômage. Pour y parvenir, les autorités devront améliorer la qualité de l'éducation, réduire le coût du travail et moderniser les réglementations du travail.

Pour réduire les disparités de niveau de vie entre les régions côtières et les régions de l'intérieur, il faut repenser la politique de développement régional, en valorisant les atouts spécifiques de chaque région autour du développement de pôles urbains. Le projet d'accroissement de l'autonomie et des compétences des collectivités locales représente une opportunité pour réaliser cet objectif.

References:

OCDE (2018), *Études économiques de l'OCDE : Tunisie 2018 :* Éditions OCDE, Paris.
http://dx.doi.org/10.1787/eco_surveys-tun-2018-fr

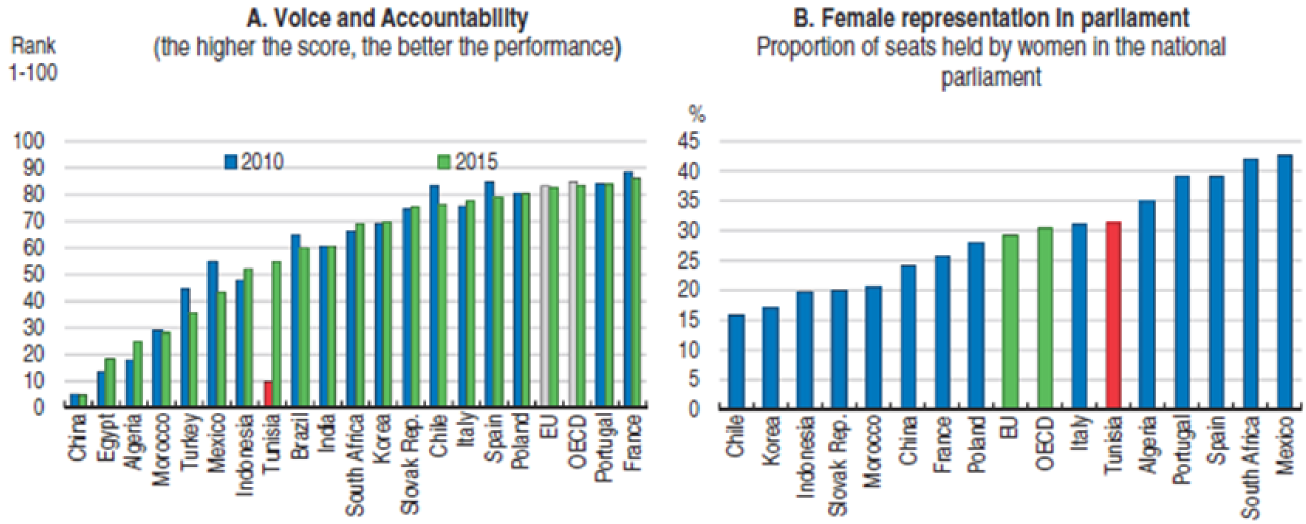
Tunisia: reviving the process of economic convergence for the benefit of all Tunisians

Category: Tunisia,Uncategorized
written by oecdecoscope | April 4, 2018
by Isabelle Joumard and Christine de La Maisonneuve, Tunisia Desk, Economics Department

Tunisia is firmly committed to a process of democratisation that needs underpinning by economic reforms in order to guarantee an improved standard of living for all Tunisians.

There has been a significant increase in citizens' capacity to participate in political life, and female representation in parliament is higher than in most OECD and emerging countries (Figure 1).

Figure 1. Political transition: significant progress toward democracy

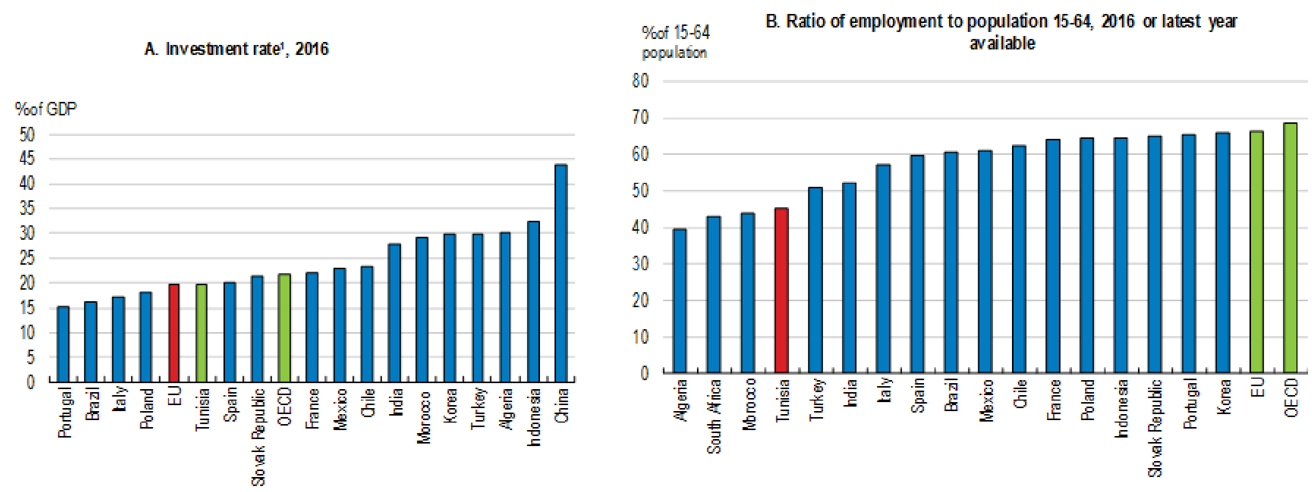


Source: World Bank, Worldwide Governance Indicators; and World Bank, World Development Indicators (WDI).

Nevertheless, economic growth is struggling to recover as a result of the impact of specific and temporary factors such as low growth in traditional export markets, social unrest, greater insecurity in the region and the crisis in Libya. The increase in the number of civil servants and in the public sector payroll temporarily buoyed demand but caused the public accounts and the external balance to deteriorate, and inflation to rise. In order to revive economic activity and high-quality job creation, and to reduce inequalities, the priority must now be placed on structural reforms.

Tunisia has undeniable assets, notably better developed basic infrastructures than the other countries in the region, a relatively well-trained workforce and a strategic geographic location between Europe and Africa. This is reflected in its participation in global value chains and the dynamism of businesses working in the export markets. That said, the best use is not being made of these assets. Investment remains low and job creation is at a standstill (Figure 2).

Figure 2. Stimulate investment and create high-quality jobs



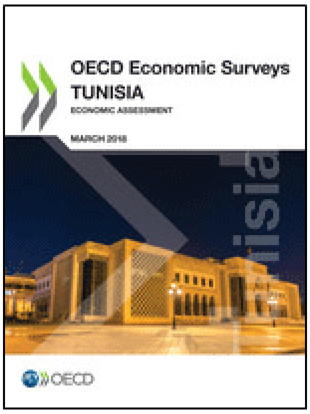
1. Gross fixed capital formation.

Source: INS; ILOSTAT; OECD Economic Outlook 102 Database; IMF, World Economic Outlook Database; and Eurostat.

To revive investment, Tunisia needs to eliminate the regulatory, customs and logistical obstacles which are primarily harming businesses focused on the domestic market. The implementation of the new law on investment is a step in the right direction but will need to be supplemented by a speeding-up of structural reforms, in particular a radical simplification of both administrative authorisations, licences and permits, and administrative and customs procedures for goods entering and exiting the country.

Unemployment is high, especially among young higher-education graduates. The employment rate for women is low, and informal employment is widespread. Stronger growth alone will not be enough to create high-quality jobs for all the unemployed young people and other Tunisian jobseekers. This can only be achieved if the authorities improve the quality of education, reduce the cost of labour and upgrade employment regulations.

To reduce the difference in living standards between the coastal regions and the inland regions, a new regional development policy is needed to leverage the specific strengths of each region around the development of urban centres. Plans to increase the autonomy and power of local authorities represent an opportunity to achieve this goal.



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Statistical Insights: New OECD-WTO data provides coherent and comprehensive view of Global Trade in Services

Category: Statistical Insights,Uncategorized
written by oecdecoscope | April 4, 2018
by Fabienne Fortanier, Head of Trade Statistics Section, Trade and Competitiveness Statistics Division, OECD Statistics and Data Directorate.

Services comprise a growing share of international trade. Yet detailed statistics on which countries trade which services with which partners remain patchy. Although worldwide, almost all countries provide an estimate of total trade in services as part of their balance of payments and national accounts, only around 50 OECD and non-OECD countries provide some geographical breakdown in their services statistics. This means that we have no data at all for 90% of all possible bilateral services trade relationships, which reflect nearly half of the global services trade value. Moreover, even where data are available, asymmetries – where country A's figures on exports to country B don't match country B's figures on imports from country A – undermine their usefulness.

To mitigate these problems, the OECD, WTO and countries have been collaborating to build a transparent and replicable global dataset of coherent bilateral trade in services statistics by main services categories. The first edition of the OECD-WTO Balanced Trade in Services (BaTIS) dataset is now available.

Why are current official statistics on trade in services trade so patchy?

There are many reasons why trade in services data are unsatisfactory, especially compared to merchandise trade statistics. Among the most straightforward is the fact that they can be difficult to identify despite the plethora of international guidelines. Whereas the physical nature of goods means they are relatively easy to measure when they cross borders, the delivery of services is more difficult to observe – even more so when they are delivered in digital form. Data confidentiality restrictions, when only one or a few firms dominate trade in a certain services category, add another layer of complexity. But there are many more factors that cause measurement problems and asymmetries. For example, countries typically use model-based estimates for services that can only be observed indirectly, and these may differ across countries. Payments for services may not coincide with their delivery (for example in construction projects). And measurement can become even more complicated when the service is delivered between affiliated firms.

The measure explained

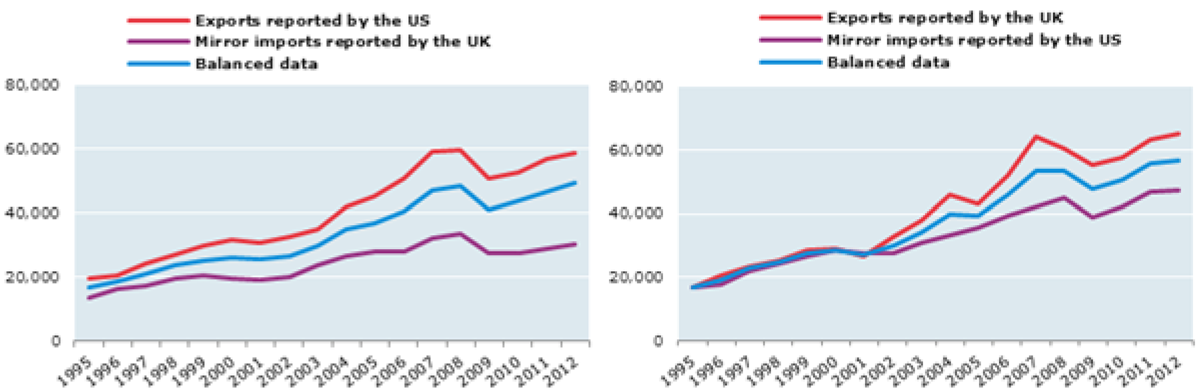
To reconcile asymmetries in bilateral trade in services statistics and to estimate bilateral flows where no statistics exist, BaTIS uses all available official data, and a variety of estimations, including linear interpolations and extrapolations, and econometric models, all of which are benchmarked to the officially reported totals and sub-totals.

Reported exports and imports are then reconciled using a "symmetry index" that gives more weight to those countries whose data more often agree with those of their trading partners (see our recent Statistical Insight on merchandise trade data). The balancing procedure also takes account of the reliability of different estimation methods, and gives preference to officially reported data over estimates.

Key findings

These adjustments mean that the final figure in the OECD-WTO BaTIS database for any given bilateral trade flow will differ from the figures reported by both countries, if these were originally asymmetric. Figure 1 below illustrates this for total services trade between the United States and the United Kingdom. Note that the balanced trade values fall between the two countries' figures, and reflect trends in both.

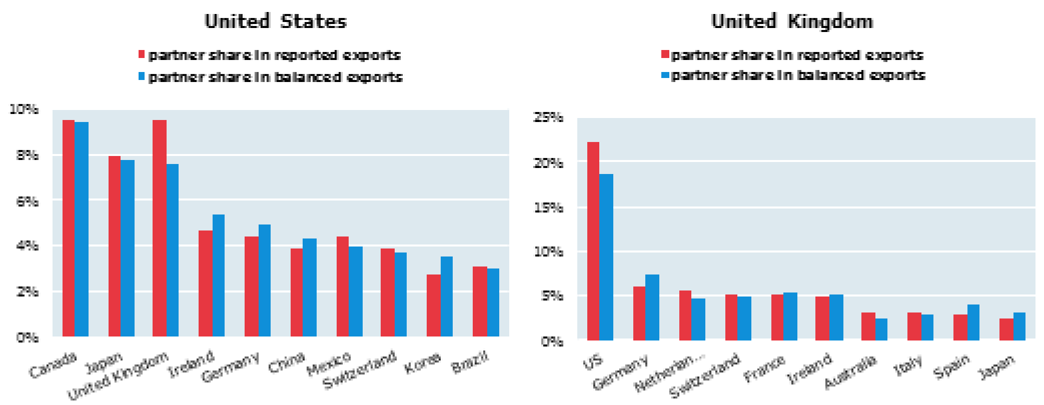
Figure 1. Balanced bilateral trade in services data – US to UK and UK to US



Source: OECD-WTO BaTIS database

BaTiS may also alter the ranking of a country's main trading partners. Figure 2 illustrates this for total trade in services, again focusing on US and UK exports. For example, official data for the US put the UK on a par with Canada as the US's most important export market for services, but balanced trade data show the UK falling to third place behind Japan. Similarly, although the US remains the most important export market for the UK services, its importance is significantly smaller when seen through the lens of BaTiS, while trade with many European markets, notably Germany and Spain, is larger.

Figure 2. Top 10 destination countries for service exports, 2010: reported versus balanced trade data for the US and the UK

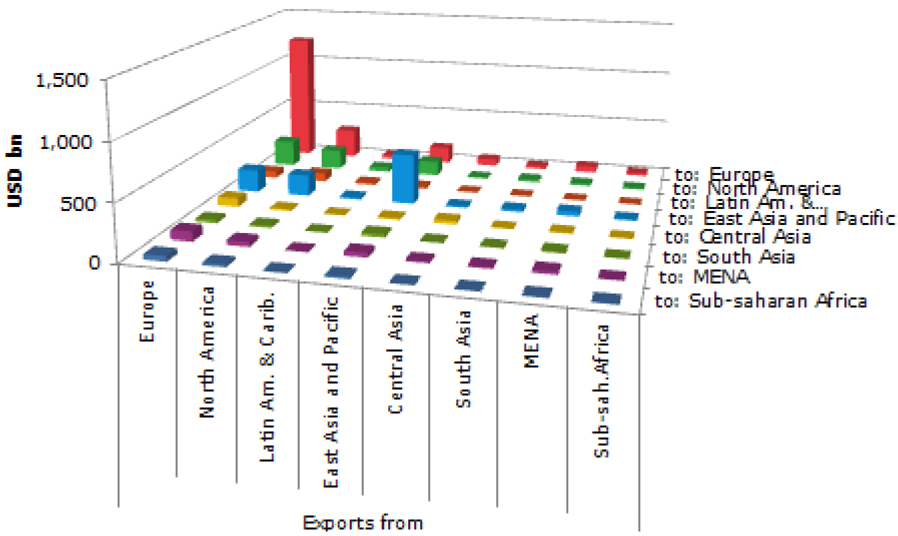


Source: OECD-WTO BaTiS database

BaTIS also provides insights on which countries systematically over- or under-report services trade figures as compared to their trading partners. One prime example is Bermuda, which reported only 1.4 bn USD of services exports in 2012, compared with 26 bn, 14 bn, and 5 bn USD reported as imports from Bermuda by the US, the Netherlands, and Ireland respectively. As Bermuda's symmetry index is much lower than those of its trading partners, total balanced services exports by Bermuda in BaTiS were 64 bn USD in 2012 – 45 times higher than Bermuda's officially reported figure. Much of these services reflected insurance and financial services (mainly imported by the US), and royalties and licence fees (mainly imported by the Netherlands).

Figure 3 summarises the global pattern of services trade as shown in the BaTIS database. Intra-EU transactions account for 28% of global services trade, and transactions among East Asian and the Pacific countries for another 11%. North America's services exports are less focused on its own region: Europe and East Asia and the Pacific are more important destinations of exports. Other regions account for very little of global trade in services, with intra-regional trade accounting for only limited shares in most.

Figure 3. Sources and destinations of global trade in services, 2012



Source: OECD-WTO BaTiS database

Where to find the underlying data

The OECD-WTO database currently contains data for 191 countries for all 11 main service categories in the Extended Balance of Payments Services (EBOPS) 2002 classification for 1995 to 2012. A new dataset using the EBOPS 2010 classification will be released in 2018 and updated annually thereafter. Further work to reduce asymmetries in official data is under way in collaboration with national statistical offices. For example, the United Kingdom and the United States are currently undertaking joint work to reduce their asymmetries in services trade (see articles by the UK Office for National Statistics "Asymmetries in trade data – diving deeper into UK bilateral trade data" and US Bureau of Economic Analysis "Understanding Asymmetries Between BEA's and Partner Countries' Trade Statistics").

Further reading

- Fortanier, F., Liberatore, A., Maurer, A., Pilgrim, G. and Thomson, L. (2017) 'The OECD-WTO Balanced Trade in Services Database', OECD-WTO paper.

To fear or not to fear the future of work? Opportunities, disruptions and policy challenges

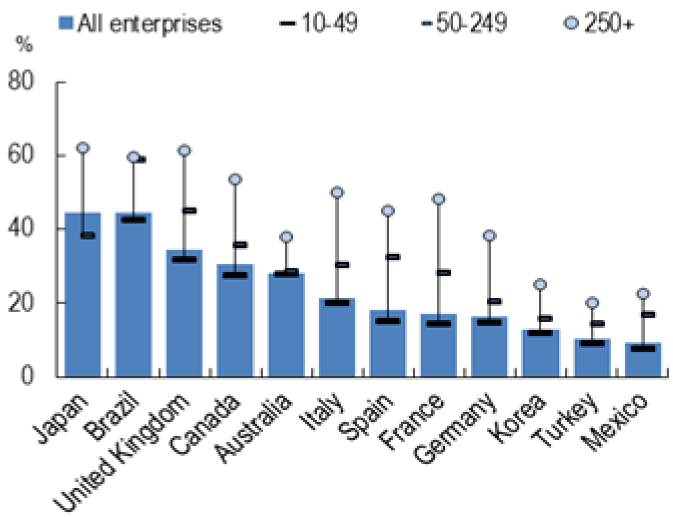
Category: Uncategorized
written by oecdecoscope | April 4, 2018
By Dorothée Rouzet, Senior Economist, OECD Economics Department

Rapid technological change – from digitalisation to artificial intelligence, 3D printing and nanomaterials – is transforming the way goods and services are produced and consumed. It will have profound implications for the dynamics of productivity, jobs, investment and trade over the next 10 to 15 years. A new OECD report to G-20 Finance Ministers provides an overview of the implications of the changing world of work for achieving inclusive growth.

Technological breakthroughs offer huge potential to galvanise productivity and lift incomes, but these benefits have so far been slow to materialise. The key to solving this apparent puzzle is accelerating the adoption of technologies. Many firms have not yet taken advantage of digital services to improve their efficiency and reach.

The uptake of cloud computing services is uneven across firms and countries

% of enterprises in each employment size class, 2016



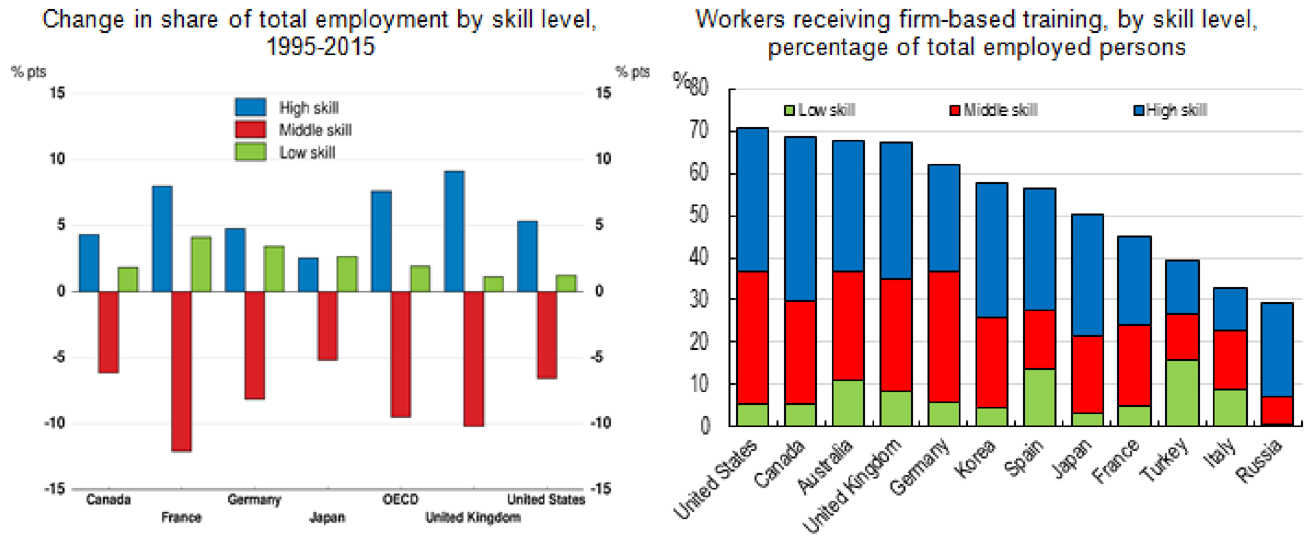
Note: Manufacturing and non-financial market services enterprises with at least ten employees.
Source: OECD ICT Access and Usage by Businesses database.

Reviving technology diffusion would help bridge the productivity gap between a small minority of highly productive firms and the rest of the economy. In emerging economies, ramping up the absorption of technologies may also be the only way to jumpstart a new development path, at a time when automation and 3D printing could erode their cost advantage in manufacturing. Boosting adoption will require addressing three types of bottlenecks: the roll-out of high-quality digital infrastructure; the availability of a complementary talent pool, including high managerial and ICT skills; and policy conditions that encourage competition, experimentation and business dynamism.

While striving to reap the growth benefits of new technologies, it should also be recognised that the future of work is fraught with anxieties and fears that the “rise of the robots” may lead to mass unemployment. Automation however has not created massive job losses so far, and is unlikely to do so in the future. New and more productive jobs will emerge while others disappear, but this implies major reallocations between tasks and activities – and serious disruptions for some workers. At the same time, new forms of work in the “gig economy” are offering workers more flexibility about when, where and how they work, but may come with inferior job quality and low job security.

Employment has already been polarising away from middle-skill jobs. Some manual and basic skills are becoming obsolete while cognitive and ICT skills are in ever higher demand. Many workers are ill-equipped to navigate this transition. For instance, in OECD countries, 55% of workers lack the basic problem-solving skills needed in a technology-rich environment. Worryingly, training programmes are not doing a good job at reaching these low-skill workers who urgently need to re-skill and up-skill. Adapting education and training to evolving needs, and supporting transitions to new jobs, will be critical to ensure that the least skilled share in the benefits of technology.

Job markets are polarising, but those who need training most receive it least



Note: OECD is the unweighted average of 24 countries.

The challenges of the future of work transcend policy silos. They call for rethinking the design of policies spanning taxation, social protection, competition, innovation, skills and labour market policies. Ambitious and comprehensive policy packages will be key to help firms seize the opportunities brought by technological change, to help workers navigate the uncertainty, and ultimately to embrace the potential of rapid innovation to bring stronger and more inclusive growth.

Further reading

OECD (2018), Achieving inclusive growth in the face of digital transformation and the future of work, Report to G-20 Finance Ministers

Economic Policy Reforms: Going for Growth 2018

OECD Employment Outlook 2017

OECD Science, Technology and Industry Scoreboard 2017

Child benefits and female labour supply – the case of Poland

Category: Uncategorized
written by oecdecoscope | April 4, 2018
by Nicola Brandt, Polish Desk, OECD Economics Department

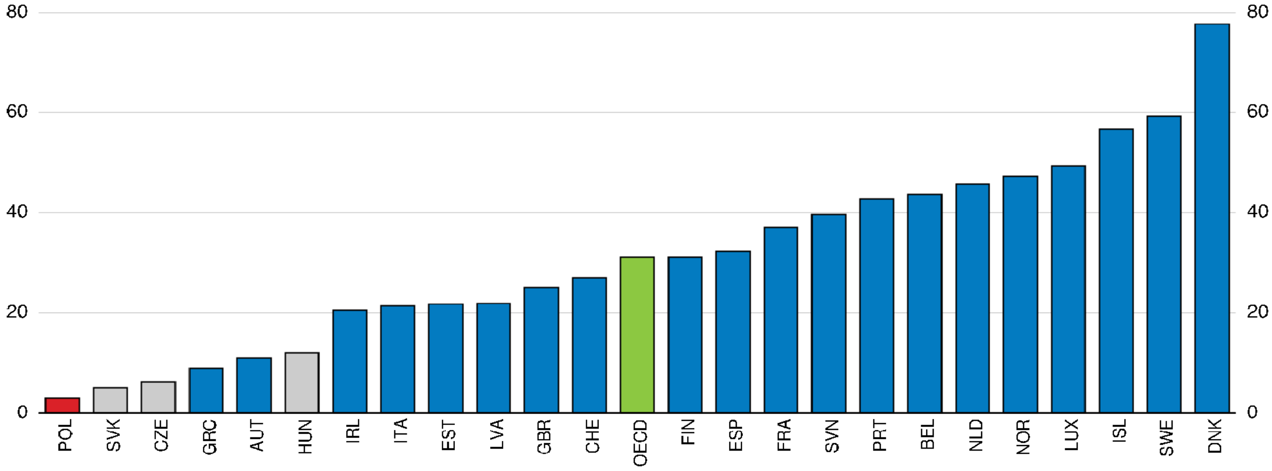
In 2016 the Polish government introduced a large new child benefit, called "Family 500+", with the aim to increase fertility from a low level and reduce child poverty. The benefit is universal for the second and every further child and means-tested for the first child. It more than doubles fiscal support for families, making Poland one of the top spenders in the EU concerning cash transfers for families.

It is already clear that the benefit helped to materially reduce child poverty. Extreme child poverty dropped by 3 percentage points in 2016 and the effect may well strengthen, as the benefit was paid out only starting in June of that year. It is too early to gauge the effect on births, which have been rising lately, but this could be mainly a result of the booming labour market and rising incomes. Studies for other countries find that generous family benefits can have a positive impact on fertility, although estimated effects differ widely (Brainerd, 2014).

But there may also be undesirable side effects on employment. Evidence from other countries suggests that that there can be negative effects of child benefits on female labour supply, which tend to be greater for women with lower skills (Schirle, 2015; Haan and Wrohlich, 2011). Access to affordable childcare is improving in Poland, but still very limited in many areas, in particular for the smallest children. It is hardly used at all by mothers with less than tertiary education (Figure 1). In that context child benefits can create disincentives to work for single mothers or second earners with children. This is due to its feature that the benefit is withdrawn at once when per capita family income increases beyond the eligibility ceiling. As an example, the OECD tax-benefit models suggest that an unemployed single mother of two taking up a job that pays the average wage would retain less than 20% of her earnings as a result of taxes and benefit withdrawal. If her only choice is unsubsidised private childcare, she would actually lose money.

Figure 1. Participation rate in formal childcare

0-2 year olds whose mother has less than tertiary education, per cent

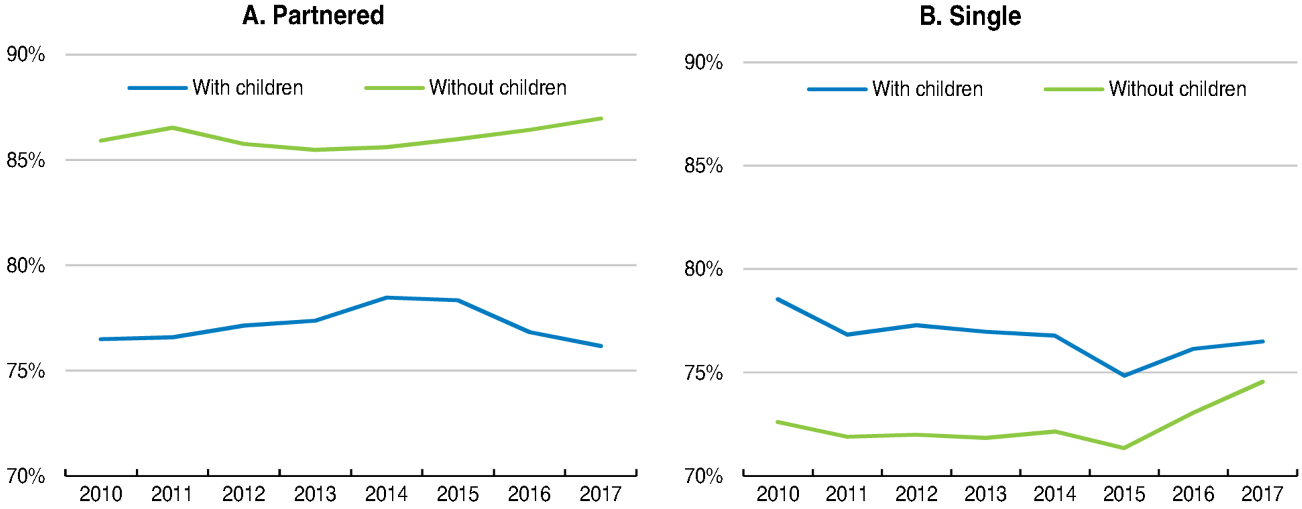


Source: OECD (2017), *OECD Family Statistics* (database).

Joint research by the Institute for Structural Research (IBS) in Warsaw and the OECD finds that the introduction of the child benefit has indeed had a negative effect on labour force participation and employment of mothers. The study compares labour force participation trends for mothers of up to two children and childless women, differentiating between single and partnered women, as female labour supply is thought to be influenced by the presence of a partner. Figure 2 shows that while in each subgroup labour force participation trends were similar for mothers and childless women prior to the introduction of the child benefit, they started to diverge markedly after that. For partnered mothers, labour force participation actually fell.

Figure 2. Labour force participation rates of women aged 20-49 by marital status and presence of children

Per cent



Source: Own calculations based on EU Labour Force Survey data.

A more formal econometric analysis comparing labour force participation trends across these groups based on a difference-in-differences approach suggests that for both single and partnered mothers labour force participation might have been almost 3 percentage points higher in the absence of the child benefits in the first half of 2017. The analysis also reveals that the effect is strongest for relatively low-qualified mothers with basic vocational education or less.

While this research does imply that large child benefits can affect female labour force participation negatively, there is reason to believe that context and design matter. For example, by withdrawing the benefit for the first child more gradually the government could mitigate negative effects on labour supply. Another solution would be to make the benefit income-dependent for all children, but with a much higher eligibility ceiling as higher-earning mothers' labour supply seems to be less affected by the benefit. Stepping up efforts to quickly extend access to affordable childcare is also likely to reduce any undesirable side effects on female labour supply.

Further reading

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Magda, I., A. Kielczewska and N. Brandt (2018), The impact of large child benefits on female labour force supply – the case of Poland's "Family 500+" programme.

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Towards an innovative and inclusive economy in Poland

Category: Labour markets,Poland,Uncategorized
written by oecdecoscope | April 4, 2018
by Nicola Brandt and Pierre Guérin, Poland Desk, OECD Economics Department

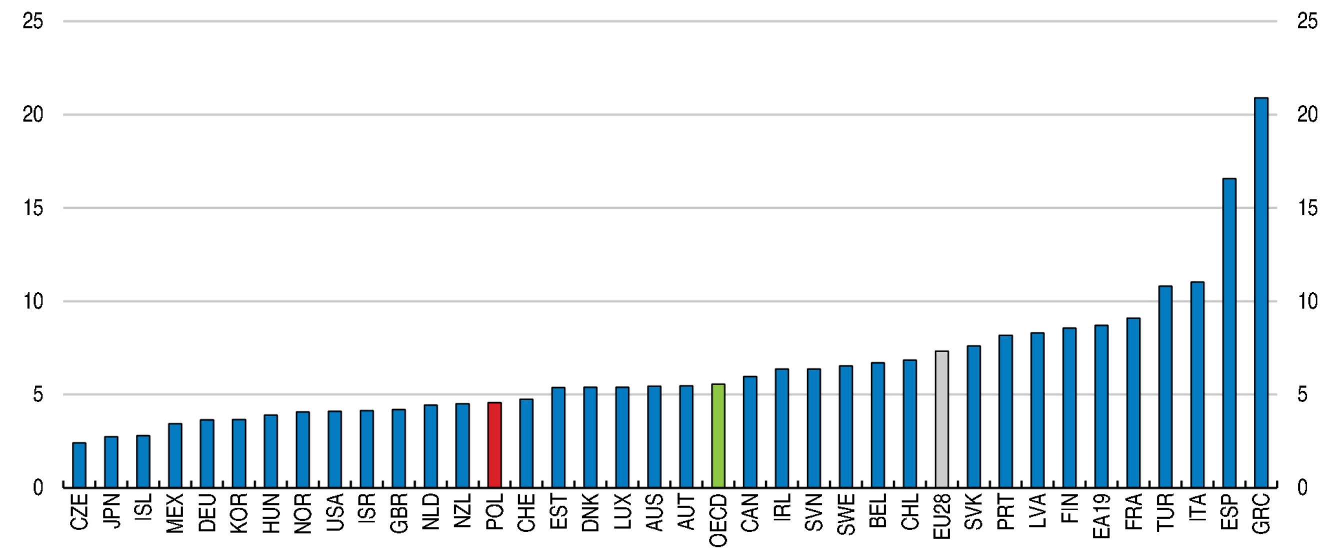
The Polish economy is in a strong position. Economic growth reached 4.6% on average in 2017 and the OECD expects it to continue at around 4% over 2018/19. A good external environment, with a solid recovery in the euro area, and the child benefits introduced in 2016, the "Family 500+" programme, are the main drivers of this strong performance.

Together with a booming labour market, that has brought down the unemployment rate significantly (**Figure 1**), the Family 500 + programme has also helped make economic development more inclusive, as larger parts of the population now benefit from new job opportunities and rising incomes.

In the longer run, there are challenges related to Poland's rapidly ageing population. The recent lowering of the retirement age back to only 60 for women risks weighing on senior employment and growth prospects and heighten risks of old-age poverty, in particular for women with patchy career paths. The OECD Economic Survey of Poland argues that the government needs to step up its efforts to improve currently limited access to affordable childcare services. Insufficient institutional care for the elderly is another barrier to female employment and improved well-being for seniors.

Figure 1. The labour market is tightening

Total unemployment rate (% of labour force), Q4 2017 or latest available



Source: OECD (2018), *Labour Market Statistics* (database), https://data.oecd.org/unemp/unemployment-rate.htm

Raising Poland's capacity to innovate in line with the government's Strategy for Responsible Development would help strengthen productivity growth and ensure continued convergence to higher living standards. The envisaged higher education reform with its plans to strengthen the quality of doctoral training and currently weak science-industry cooperation is crucial in this respect, as research quality and the supply of researchers do not meet top OECD standards, yet. The Economic Survey recommends a continuous increase in funding for higher education and research over time and a better link of academics’ career progression with their research and teaching achievements. The new academic exchange agency is an excellent opportunity to strengthen ties to foreign universities and the Polish research diaspora.

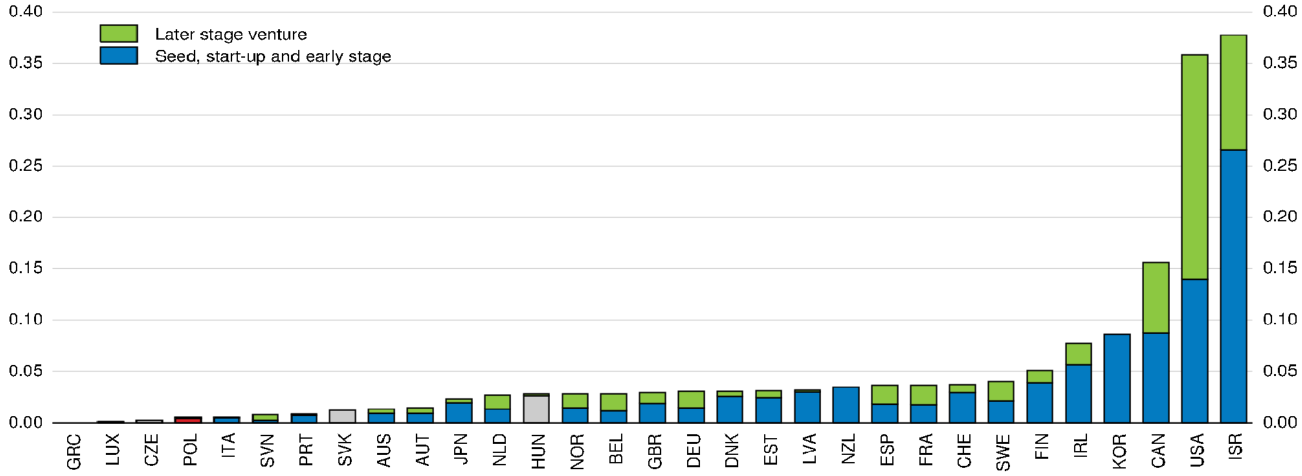
Too many adults have weak basic and digital skills, including managers and tertiary graduates, and vocational training suffers from weak employer engagement and insufficient alignment with labour market needs. Yet, participation in adult training is weak. Developing a national skills strategy with a strong basic skills component and engaging employers to develop more workplace-based vocational education and adult training would boost skills and help secure stronger and more inclusive growth by building the basis for faster productivity gains in Poland’s numerous micro-enterprises.

Private-sector R&D spending is low, particularly among SMEs, hindering new technology absorption and innovation. The government has stepped up the previously limited R&D tax relief and strengthened hitherto weak venture capital investments programmes, which can be well-suited for innovative firms engaging in high risk-return projects (**Figure 2**). To ensure the quality of such programmes, it will be important to strengthen impact assessment of public support for innovation. Examples from OECD countries, including Denmark, Australia, the Netherlands and New Zealand, suggest that more systematic private sector involvement into planning and monitoring innovation support programmes can help the government to identify the right policies.

Additional revenues or spending prioritisations are required to finance additional spending in higher education and research, skills, but also infrastructure and health care, and prepare for a possible decline of the availability of EU structural funds for innovation and public infrastructure programmes. Options include a stronger role for more progressive personal income taxes, more limited reliance on reduced VAT rates, and higher environmental taxes that would generate additional revenues with favourable effects on public health and environmental efficiency.

Figure 2. Boosting finance for innovative start-ups is key

Venture capital investments as a percentage of GDP[1], 2016[2]



1. Only the value of total venture capital investments is available for Korea and New Zealand.

2. Or latest year available.

Source: OECD (2017), *OECD Entrepreneurship at a Glance 2017*, OECD Publishing, Paris.

Further reading

OECD (2018), OECD Economic Surveys: Poland 2018, OECD Publishing, Paris.

http://dx.doi.org/10.1787/eco_surveys-pol-2018-en

The key to breaking cycle of

poverty in Israel lies in education

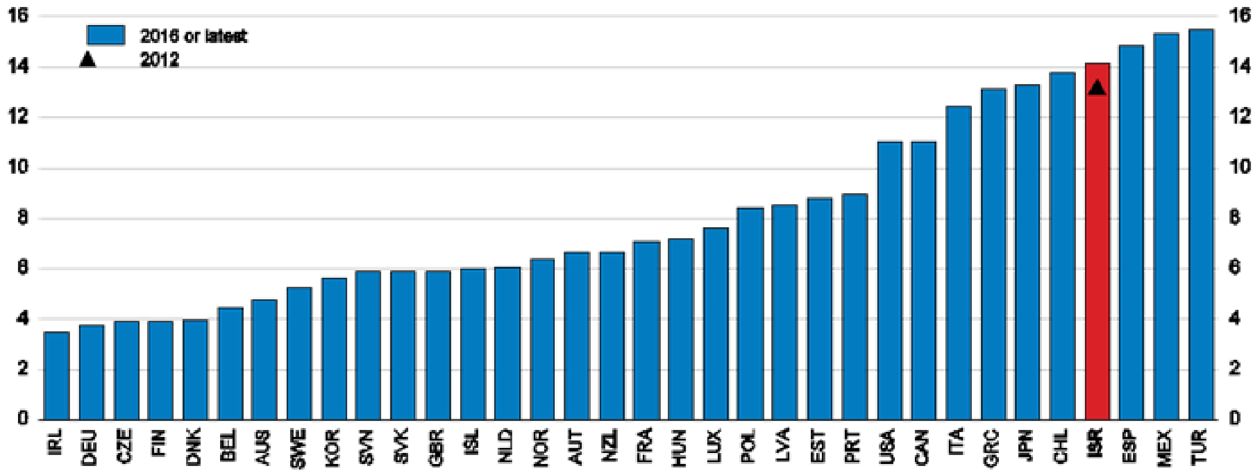
Category: Israel,Uncategorized
written by oecdecoscope | April 4, 2018
By Gabriel Machlica and Claude Giorno, Israel Desk, Economics Department

Inequality and relative poverty in Israel remain high, particularly among Arab-Israelis and Haredim (Ultra-Orthodox). Israel's social policy follows a "welfare-to-work" approach to tackle poverty in order to avoid measures that may harm work incentives among the Haredi, who value the time dedicated to religious studies, and the Arabs, who have cultural barriers to female employment. The government's strategy of encouraging employment among previously non-working families has met with substantial success. The Israeli labour market has improved markedly, and more and more Haredim and Israeli-Arabs have been able to find jobs. Moreover, the average real income of poor households has risen by almost 3% annually in the last six years, while the average annual real income of wealthier households has increased by only 2.2%.

However, inequalities remain internationally high, and the current strategy without complementary steps has its limits. Many disadvantaged workers have been able to find jobs, but their families remain poor, since in most cases these jobs are low-paid. Indeed, the share of the working poor has risen in recent years and is comparatively high (**Figure 1**).

Figure 1. The share of working poor is high

A. Share of workers in poverty[1]

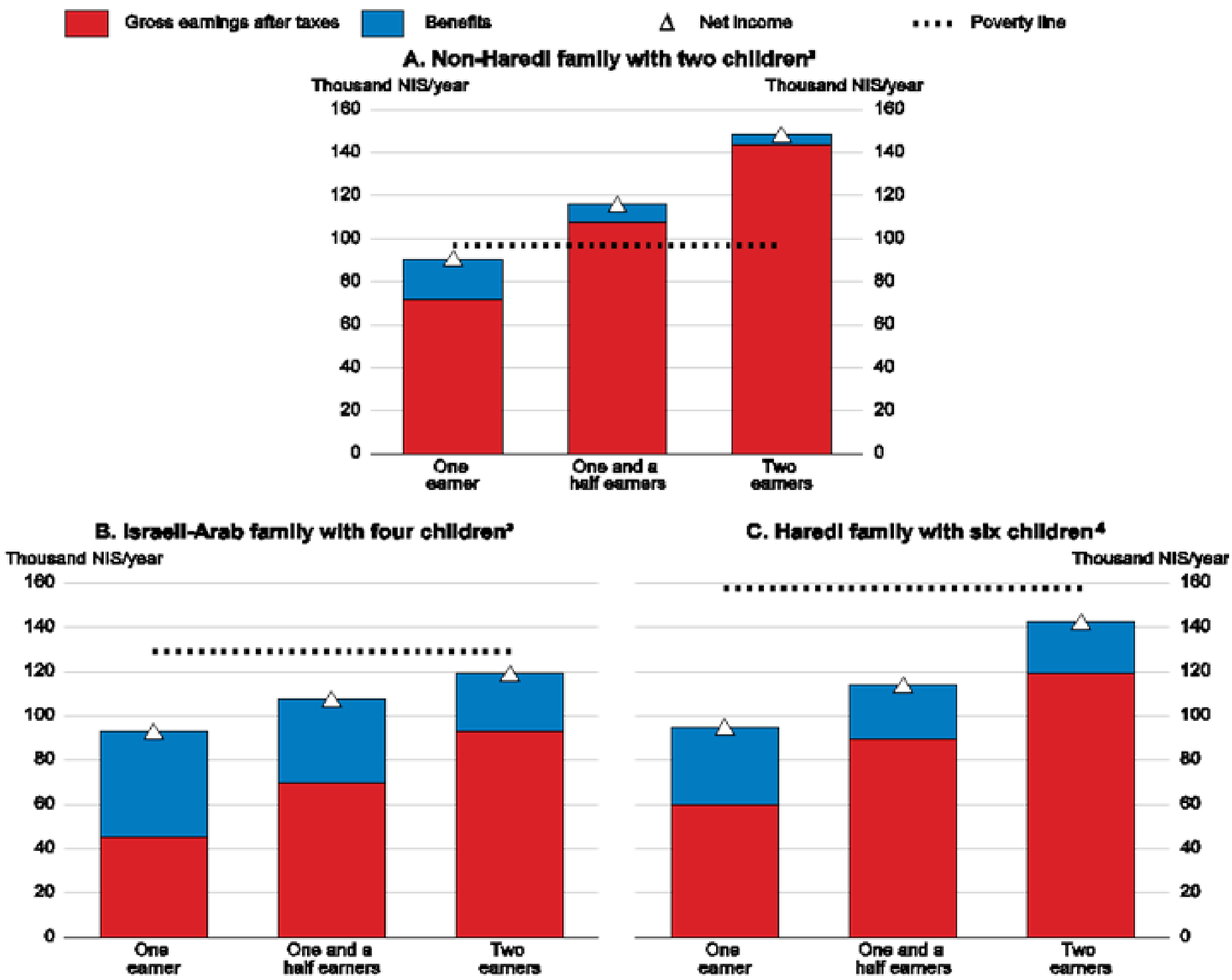


1. Those with income below the poverty line, living in households with a working-age head and at least one worker.
Source: OECD (2017), *Income Distribution database*; National Insurance Institute

This is particularly true for the Haredim and Israeli-Arabs, who earn on average only 70% and almost 90% of the median hourly wage, respectively, mostly due to the differences in skills and typically have families with only one breadwinner. Given the current tax-transfer system and large number of children in these households, especially in the Haredi community, even two full-time working spouses would not be enough to escape from poverty (**Figure 2**).

Figure 2. Higher employment of Haredim and Israeli-Arabs may not be enough to lift them out of poverty

Estimates of family income according to the numbers of earners and the community group[1]



1. One earner corresponds to a family with one earner, one and a half earner corresponds to two-earner family where one works full-time and the second half-time, and two earners corresponds to two-earner family where both work full-time.
2. Workers are assumed to earn 110% of the average wage.
3. Workers are assumed to earn 70% of the average wage.
4. Workers are assumed to earn 90% of the average wage.

Source: OECD calculations using the OECD Tax-Benefit Model. See OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en for more details.

Therefore the current government strategy should be accompanied by additional measures. Extensive poverty in Israeli society is to a significant extent due to the wide dispersion of skills. The government should improve the education outcomes of the disadvantaged groups to boost their future productivity and wages. As the *2018 OECD Survey on Israel* argues, the education system needs to become more inclusive by giving all children opportunities for good-quality education to improve their skills. The government should also focus on programmes for adults who have already left initial education without proper skills. In addition, it should further expand in-work benefits to boost take-home pay of the average eligible worker.

References:

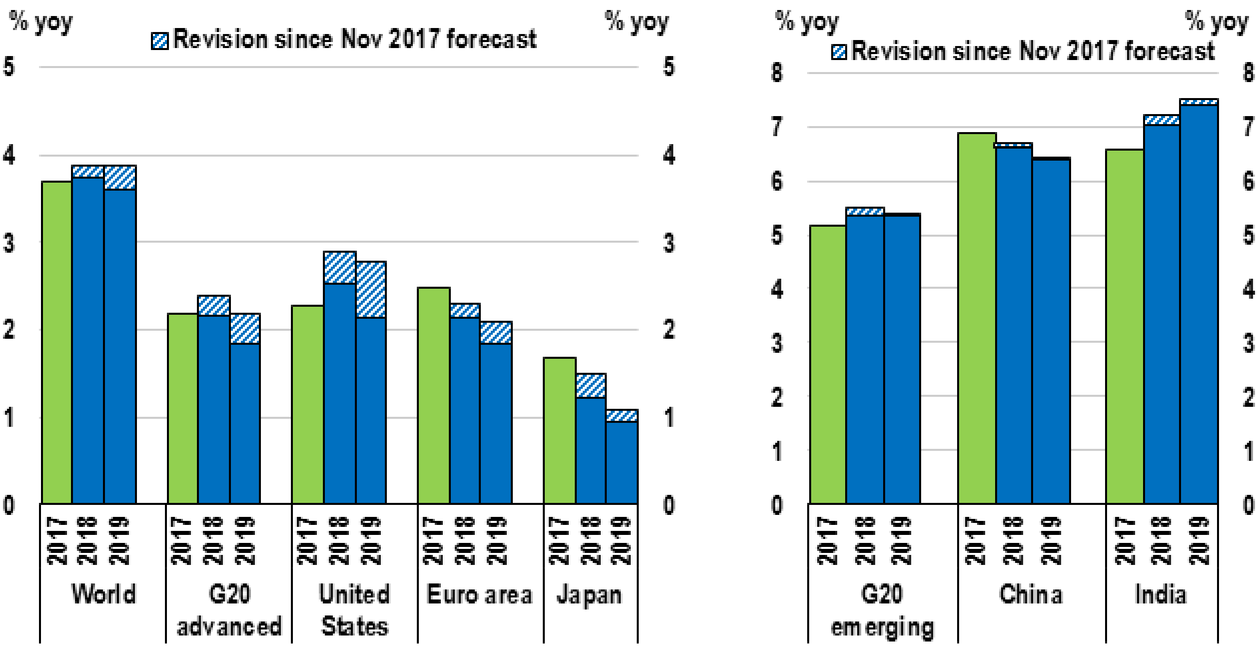
OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

Getting stronger, but tensions are rising

Category: Economic outlook,investment,trade,Uncategorized
written by oecdecoscope | April 4, 2018
By Álvaro Pereira, OECD Acting Chief Economist

The global economic expansion is strengthening. Global growth is projected to increase from 3.7% in 2017 to around 4% in 2018 and 2019 in our latest *Interim Economic Outlook*. In many advanced and emerging G-20 economies, the growth prospects for the next two years have improved. Global trade and investment are growing faster, accompanied by robust job creation. Fiscal stimulus in the United States and Germany will further boost short-term growth. Commodity exporting emerging market economies are recovering on the back of stronger commodity prices and firmer global demand. Inflation remains low, but is likely to rise slowly as labour markets tighten.

GDP growth projections



Note: GDP in volume. Fiscal years starting in April for India. The G20 aggregate does not include EU countries that are not G20 members in own right. G20 emerging includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, Turkey and South Africa, and G20 advanced includes all other G20 economies.
Source: OECD Economic Outlook database.

This is welcome news. However, there are also new tensions and new policy challenges. As the expansion progresses, monetary policy support will be reduced gradually, albeit at different speeds across major advanced economies. The likelihood of faster hikes in US policy rates has already been reflected in slightly tighter short- and long-term financing conditions. Such policy normalisation is desirable, but could expose financial vulnerabilities from accumulated debt and high asset prices. Rising interest rates could create particular challenges for emerging market economies if capital flows and exchange rates were to become more volatile.

Against the positive background, an escalation of trade tensions is a serious risk. US steel and aluminium tariffs will raise costs and harm consumers, while not solving the global overcapacity problem. Escalation of trade tensions would hurt the recovery. Safeguarding the rules-based international trading system is key.

Policymakers need to make the right choices to sustain medium-term prosperity and ensure the benefits are fairly shared by workers and households. Fiscal policy, while it remains supportive, should not excessively stimulate demand. Focusing on changes in the tax mix and spending structure holds significant potential to make growth more sustained and more inclusive in the medium term.

Keeping an eye on medium-term goals also means stepping up reform efforts to boost productivity, employment and inclusion. Some countries – Italy, France, Japan, India and Argentina – have implemented significant reforms. However, our forthcoming *Going for Growth* report (to be released on 19 March) shows that in both advanced and emerging economies overall, the pace of structural reform is once again slowing, particularly on the tax and skills policies that are so important to achieving inclusive growth. Political support for reform can dwindle in good times. Yet, good times do provide an opportunity to implement ambitious policies to develop workers' skills, promote competition, and improve the functioning and inclusiveness of labour markets so that living standards rise durably and widely across society.

Reference

OECD Interim Economic Outlook, March 2018.

United we stand divided we fall: the need for greater

inclusiveness in Israel

Category: Israel,Uncategorized
written by oecdecoscope | April 4, 2018
By Claude Giorno and Gabriel Machlica, Israel Desk, Economics Department

The Israeli economy is strong. The country is enjoying its 15th consecutive year of growth, with GDP increasing on average by 4.0% annually since 2003, i.e. faster than nearly any other OECD country. Unemployment is at historically low level, and the average standard of living is improving steadily. Rapid population growth, the rise in people with jobs, strong economic fundamentals, good economic policy settings and a dynamic high-tech sector are underpinning these impressive outcomes, which are expected to continue in the short term, according to the *2018 OECD Survey on Israel*.

Today's excellent outlook offers Israel a unique opportunity to prepare for the challenges of the future which require stronger social cohesion. Israeli society is indeed marked by large inequalities. Almost 18% of the population live in relative poverty (i.e. with a disposable income below 50% of the median), higher than the OECD average (12.5%) and any other advanced economy. This reflects large disparities between different communities. Around half of Israeli-Arabs and Haredim are poor and live separately from the rest of the population. They have different school systems, live mostly in different cities and do not serve in the army. This leads to poor education results followed by worse labour market outcomes, notably in terms of earnings (Table 1). Haredi men have a cultural preference to engage in full-time religious studies, rather than participate in the labour market, and avoid core subjects in their school careers. Furthermore, Haredi women can work only part-time because of their large families. The majority of Israeli-Arab women also do not participate in the labour market due to cultural preferences.

The result is that most Haredi and Arab families have only one breadwinner, resulting in significant problems of poverty, notably among children.

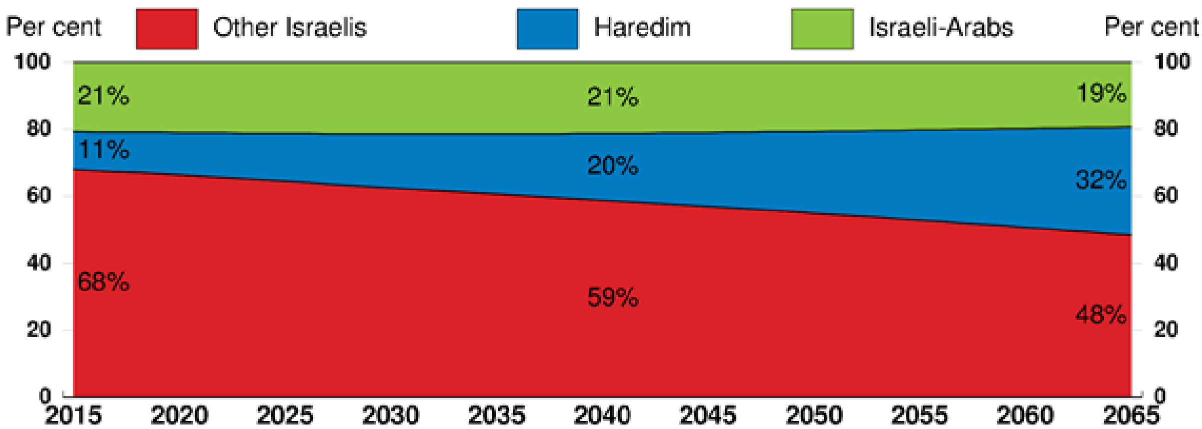
Table 1. Disparities in Israeli society

	Israeli-Arabs	Haredim	Others
Share of the population - 2016 (%)	21	11	68
Fertility rate - 2016	3.1	6.7	2.5
Number of children per household	4	6.5	2
Median hourly wage as a % of the national median hourly wage - 2015	70	87	109
Median wage as a % of the national median wage - 2015	74	68	111
Participation rate - 2016 (%)	58	66	81
PISA mean mathematics scores - 2015	391	-	495
Relative poverty rates – 2015 (%)	53.3	48.7	13.5

Source: National Insurance Institute (2016), *Poverty and Social Gaps Report, 2015*; OECD, *PISA database*; Central Bureau of Statistics.

Given the high fertility of Haredi women, the share of that community in the total population is predicted to triple in the next 45 to 50 years, with the total share of Israeli-Arabs and Haredim rising from one-third to one-half over this period (**Figure 1**). This will have a substantial impact on Israeli economic performance, given the poor labour market outcomes and low productivity of these disadvantaged groups.

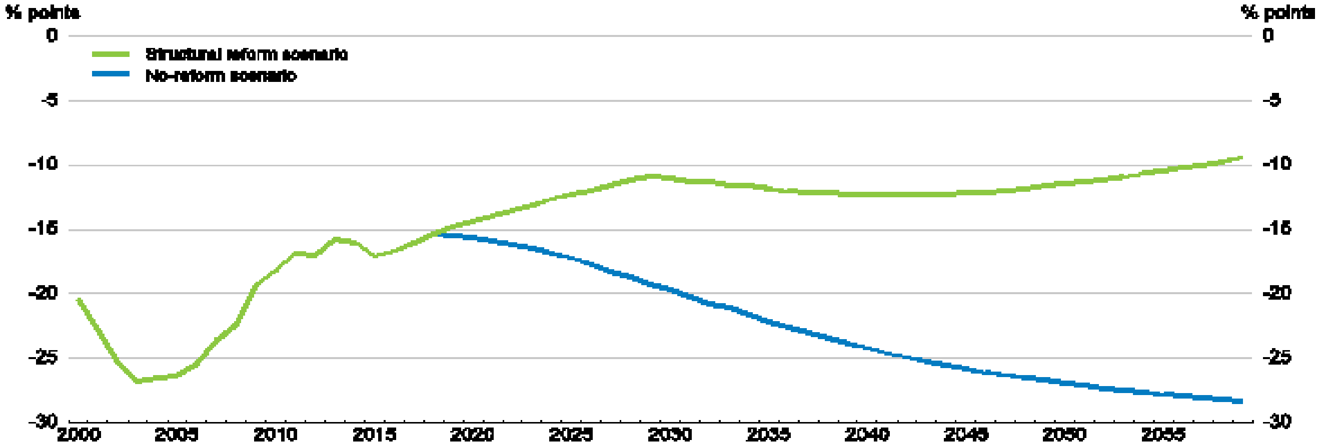
Figure 1. Demographic trend by community group



Source: Central Bureau of Statistics, http://www.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hodaa=201701138

In the absence of further progress in social cohesion and any further convergence of productivity and labour market outcomes of Haredim and Israeli-Arabs with the rest of the population, average Israeli incomes would fall to nearly 30% below the OECD average, almost double the current gap according to OECD estimates (**Figure 2**). However, if ambitious structural reforms are launched to further improve the Haredi and Israeli-Arabs' (youth in particular) integration into society through better education and training, improved work incentives and more business-friendly environment, the gap in Israeli living standards with the OECD average could shrink below 10%.

Figure 2. The gap in GDP per capita with the OECD average could shrink further with ambitious reforms[1]



1. The no-reform scenario extrapolates OECD short term projections using Geva (2015) and assuming no convergence of Haredim and Israeli-Arabs productivity and labour market outcomes with the rest of the population. By contrast, the structural reform scenario assumes gains from reforms in product market and education with enhanced incentives to join the labour market. In this scenario, the productivity of Haredim and Israeli-Arabs compared to non-Haredi Jews is assumed to increase from 60% currently to 80% and their employment rate to be close to the level of non-Haredi Jews in 2059.

Source: OECD (2017), *Economic Outlook 102 database*; A. Geva (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*. For more details see OECD (2018), OECD Economic Surveys: Israel 2018, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

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Geva A. (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*, http://www.mof.gov.il/ChiefEcon/EconomyAndResearch/ArticlesSet/Article_20150518.pdf